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## Management Discussion and Analysis

### Mission

As specified in Title 10, U.S. Code, Section 3062, the Army's mission is to defend the landmass of the United States and its territories, commonwealths, and possessions. The Army is also required, as directed by Congress, to support national policies, implement national objectives, and overcome any nations responsible for aggressive acts that imperil the peace and security of the United States.

The Army works with the other branches of the military, providing forces capable of sustained combat on land. Ensuring during peacetime that its forces are organized, trained, equipped, and ready to act when called upon requires enormous work. As such, the Army never stands still: drawing continuously on the lessons of the past, its leaders constantly seek new and imaginative ways to prepare for the future.

The Army's primary mission is warfighting, and in this it has no equal, but its capabilities enable it also to accomplish many other missions in support of the national objectives. Prepared at all times to fight and win the nation's wars, its Soldiers are also ready to be dispatched anywhere in the world to save lives, protect property, or keep the peace. In 228 years, the Army has never failed the nation.

In addition to these responsibilities, the Army has a responsibility to use wisely the public funds entrusted to it. Despite comprising 33 percent of all active

military forces in FY 2003, the Army accomplished its missions and prepared for future missions while consuming only 23 percent of the funds allocated to the Department of Defense.

### Organizational Structure

The Army is an organization of headquarters, staffs, commands, and units integrated into a single system with a common mission. Because of its size and complexity, the Army requires an approach that permits independent action by its separate parts while ensuring that its leadership retains overall command and control. The Army has three distinct subsystems—production, combat, and integrating—each of which operates within its own environment.

#### The Production Subsystem

The Army is charged with organizing people and machines into the configuration best able to perform its mission. The production subsystem, often referred to as the institutional Army, primarily supports the combat subsystem. Through a number of diverse organizations, the production subsystem obtains the raw materials that the Army needs, recruiting people, searching for new technologies, and dealing with the producers of required materiel.

Other elements of this subsystem convert these raw materials into intermediate goods; for example, training centers and schools turn untrained people into tank crewmen, infantrymen, and mechanics. These schools additionally convert ideas and knowledge into doctrine, tactics, and training methods to enhance the

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The United States Army  
General Fund

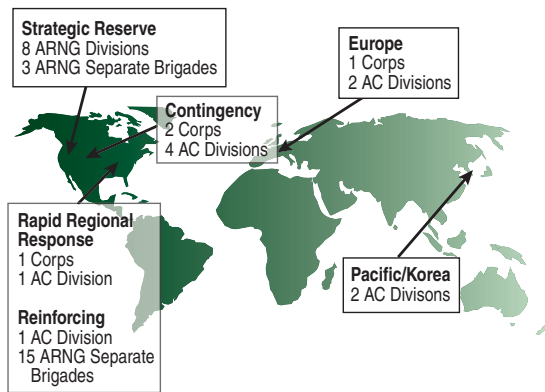
## What We Do

- Warfighting
- Peacekeeping
- Humanitarian Aid
- Homeland Security



A Soldier provides security with a .50-caliber machine gun at a site near Balad, Iraq, where a convoy was recently attacked with rocket-propelled grenades and small arms. U.S. Army photo by Sgt. Jack Morse.

**Figure 2. Combat Force Stationing in FY 2003**



capability of the combat subsystem. Laboratories, arsenals, and procurement and test organizations convert technology and contractor effort into weapons and equipment for combat.

The two major components of the production subsystem are the Training and Doctrine Command and the Army Materiel Command. The former produces the training, doctrine, and tactics needed to fight and win America's wars. The latter provides the materiel solutions needed by the warfighting units of the combat subsystem.

### The Combat Subsystem

The combat subsystem converts the intermediate goods of the production subsystem into mission-ready units, melding together Soldiers, equipment, and doctrine into a force that is fully combat-ready. It must be alert at all times to all potential threats and must be prepared to serve the changing needs of the unified combatant commanders to whom it provides ready forces.

The combat force is structured into corps and divisions, under the peacetime command of major Army commanders. The commanders are charged with keeping their assigned forces ready to fight whenever and wherever needed. These corps and divisions may be forward-deployed or stationed within the United States. Regardless, they are prepared for rapid response or other contingencies, or are held for strategic reserve. Figure 2 shows the stationing of major Army combat forces in FY 2003.

The active, reserve, and civilian components of the Army each play an integral part in enabling the combat subsystem to accomplish its goal of providing combat-ready forces. The active component forms the nucleus of the initial combat forces in a crisis; the reserve components reinforce and augment the active forces, either by unit or by individual replacements; and the civilian component complements this subsystem by providing critical support and sustainment.

### The Integrating Subsystem

The integrating subsystem ties the other two subsystems together and decides what must be done to ensure that the Army can accomplish its mission. Integration is the primary function of the Secretary of the Army and of the Army Chief of Staff, who together lead the Headquarters Department of the Army (HQDA).

HQDA is composed of two elements: the Army Secretariat (the civilian leadership) focuses on managing the business of the Army, and the Army Staff (military leadership) is responsible for planning, developing, executing, reviewing, and analyzing Army programs.

In performing its integrating function, HQDA determines the nature of the Army's mission requirements in conjunction with Congress, the Department of Defense (DoD), and the other military services, and by assessing the nature of the threats faced by the nation. HQDA then charts a course for

the Army, securing the necessary resources and allocating them as appropriate to best accomplish the mission. HQDA continually monitors the performance of the other subsystems and effects change should performance fall below requirements.

Over the last 2 years, HQDA underwent major change. Recognizing that it had not kept pace with the changing business environment, the Army began transforming its business practices both to enhance the capabilities and creativity of its people and to free up resources to support warfighting and Transformation. Starting at the top, the Army began by merging the Secretariat and the Army Staff into a single headquarters structure to improve decision-making, to reduce redundancy, to better focus on Army core competencies, and to redirect people and resources thus released from other duties to its warfighting forces.

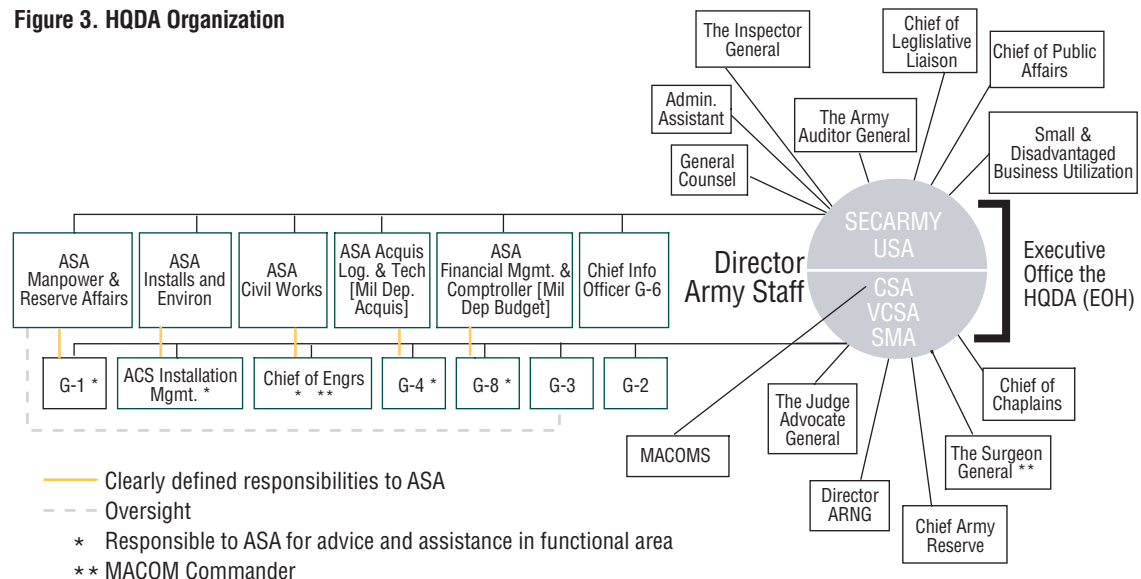
The reorganization of HQDA has had a significant impact. Decision-making authority is now unified in the Executive Office of HQDA. By defining the responsibility of the Secretariat as policy, direction, and oversight and by realigning operational missions to the Army Staff, the Army eliminated several major redundancies. In returning requirements generation approval to the Chief of Staff, it additionally has put more discipline into the process. The new HQDA organization is shown in Figure 3.

This reduction of headquarters layers will enable much more effective use of the Army's financial



Soldiers from the Army's 166th Infantry, 2nd Battalion, Charlie Company, conduct a dismounted patrol in Guantanamo Bay, Cuba. DoD photo by Chief Petty Officer John F. Williams, U.S. Navy.

Figure 3. HQDA Organization



\*As of September 30, 2003



Makua Military Reservation, Hawaii – An OH-58D Kiowa Warrior provides aerial cover January 28 as a platoon from 1st Battalion, 27th Infantry Regiment, 25th Infantry Division (Light), prepares to advance toward the “enemy” during a Combined Live Fire Exercise. U.S. Army photo by Sgt. Frank Magni



Sgt. Elijah Caddy uses a panoramic telescope to sight in a howitzer during a test fire at Baghdad International Airport in Iraq. Department of Defense photo by Air Force Master Sgt. Robert Hargeaves, Jr.

resources. For example, the Army has unified its acquisition effort under a single acquisition executive, with the result that funding now flows directly from the acquisition executive to program managers. The reorganization of HQDA has thus far eliminated more than 700 headquarters management account spaces, making these available instead to the combat and production subsystems. HQDA reduction will continue as further non-core functions are identified and eliminated.

### Realizing the Army Vision - People, Readiness, and Transformation

In 1999, the Army announced its vision to transform into a more strategically responsive force, dominant across the full spectrum of military operations. The Army Vision addresses three essential components: People, Readiness, and Transformation. Soldiers are the heart of the Army, the core of our formations, and the foundation of our combat power. Readiness remains our overarching imperative. It is the means by which we execute our non-negotiable contract with the American people: to fight and win our nation’s wars, decisively. To preserve Army readiness during this period of rapid change, Transformation is advancing on three major axes: holding on to legacy formations to maintain readiness and dominance today; inaugurating Stryker Brigades (the Interim Force) to bridge the operational gap; and ultimately fielding the Objective Force to keep the Army dominant in the years beyond this decade.

Realization of the Army Vision will require the concerted effort of all Army components, from

warfighting units to the institutional support organizations. The Army published its Transformation Campaign Plan in April 2001 to synchronize and guide this complex undertaking. The November 2001 Objective Force White Paper describes the advanced capabilities and core technologies needed to build the Objective Force, and the June 2002 Transformation Roadmap defines Transformation as a continuous process, with specific waypoints, that will increase the Army contribution to the Joint Force while achieving the six DoD critical operational goals. The result will be a more strategically responsive and full-spectrum-dominant force capable of prompt and sustained land combat operations as a member of the Joint Force.

In future joint operations, Objective Force units will be capable of directing major operations and decisive land campaigns with Army headquarters. Objective Force headquarters at all levels will provide the Joint Force Commander (JFC) with seamless joint battle command and decision superiority. The modularity and scalability of our Objective Force formations will provide an unprecedented degree of flexibility and adaptability to the combatant commander, providing the right force at the right time for a decisive outcome.

### People

People are central to everything we do in the Army. Platforms and organizations do not defend this nation; units do not train, stay ready, take risks, and make sacrifices; and institutions do not transform. People do. Everything that the Army has ever achieved has



been due to our people, and it is upon the well-being of these people—the human dimension of our Transformation—that Army readiness depends. When we defined the Army Vision we committed ourselves to developing our Soldiers and civilians into competent, confident, disciplined, and adaptive leaders, capable of succeeding in situations of great uncertainty. We are dedicated to preparing our Soldiers to lead joint formations, to enabling our headquarters to command and control joint forces, and to providing to those joint formations the capability that only the Army can bring to the fight: the capability to control terrain and populations.

The objective of our manning strategy is to ensure that we put our people into the positions that enable us to capitalize best on their warfighting expertise. This is the Army's commitment to the nation and to Army leaders, Soldiers, and their families. Proper unit manning is central to our ability to fulfill our mission and to serve as a strategic element of national policy. It brings predictability for our people and ensures that our leaders have the resources necessary to perform their assigned tasks. In FY 2000, we implemented a strategy to man our forces to 100 percent of authorized strength, starting with divisional combat units. We expanded this program in FY 2001 and FY 2002 to include early deploying units. In FY 2002, we succeeded in filling our divisions, armored cavalry regiments, and selected early deploying units to 100 percent in the aggregate, with a 93-95 percent skill and gradeband match. We remain on target to accomplish our long-term goal of filling all Army units to 100 percent of authorized strength.

We anticipate also hitting all recruiting targets this year, as we have since FY 2000. Through August the Army had recruited 67,354 Soldiers, with enough enrolled under the delayed entry program to make the 73,800 needed by the end of September 2003.

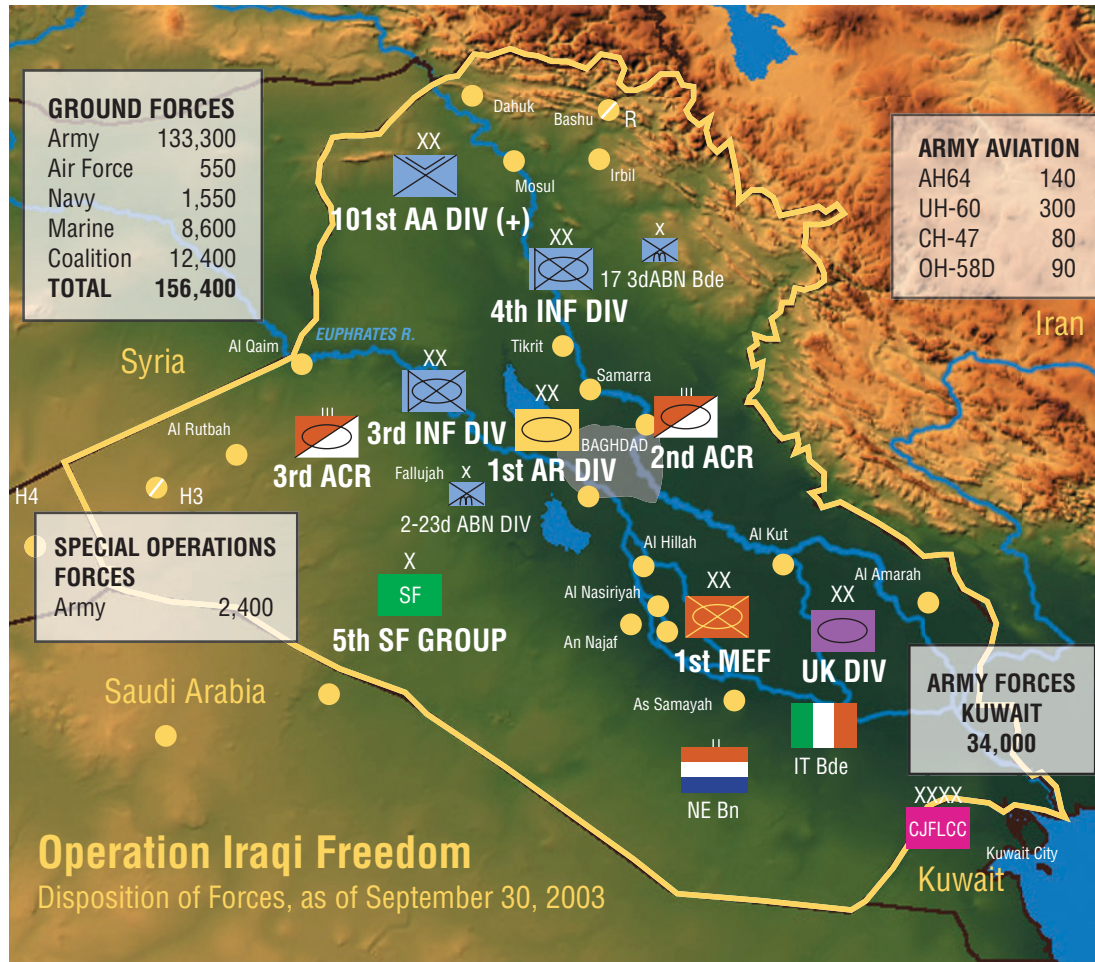
More than 50 percent of our Soldiers are in the Reserve component. The fight against terrorism and support for homeland defense are significant undertakings that demand a high level of resourcing. The Army Reserve has been key to our success in these operations. To ensure that the Reserve remains trained and ready to meet the increasing demands placed upon it, the Army plans to increase full-time support authorizations 2 percent each year through FY 2012, raising the full-time support from the current level of 69,915 to a level of 83,046. Full-time support authorizations are the leading priority of both the Army National Guard and the Army Reserve leadership.

As part of the effort to consolidate, streamline, and more effectively manage the Army, we have begun also to transform our civilian personnel system. A high-quality, well-trained civilian force is essential to the readiness of the overall force and to our ability to sustain operations today and in the future. Projections through FY 2005 indicate that we are facing a 16 percent annual turnover of our civilian workers due to retirements and other losses. To fully support our combatant commanders and to fulfill our obligations to the nation, it is essential that we undertake a comprehensive transformation of the civilian force to match the transformation of our fighting forces.



Interpreter Yousef Alsobaie, right, converses in Arabic with local townspeople about their various concerns at the neighborhood of French Quarter, Iraq.

**Figure 4. Operation Iraqi Freedom: Disposition of Forces**



Finally, the readiness of the Army is inextricably linked to the well-being of our people. The human dimension of Transformation accordingly is being addressed through the Army Well-Being program, which is designed to take care of the physical, material, mental, and spiritual needs of all Army people: Soldiers, civilians, retirees, veterans, and families. Supporting mission preparedness as well as individual aspirations, Well-Being integrates policies, programs, and other personnel issues into a holistic, systematic framework that will provide a path to personal growth and success and thus will enable our people to become wholly self-reliant.

Initiatives such as the recent improvements to the Montgomery GI Bill, TriCare for Life, TriCare Reform, Retired Pay Reform, the 4.1 percent general pay increase, and additional pay increases have all contributed to the well-being needs of our people. Army voluntary education programs additionally are improving our combat readiness by enhancing the skills, knowledge, and aptitude of our Soldiers, producing confident, competent leaders. The underpinning philosophy of Well-Being, however, is that we recruit Soldiers but retain families. Knowing that their families are properly cared for, Soldiers can better focus on their mission: to train for, fight, and win our nation's wars.

## Readiness

Readiness is the watchword of the Army. The events of September 11, 2001, changed utterly the landscape in which we live and work. Today we have more than 368,000 Soldiers deployed around the world. From combat operations in Iraq and Afghanistan, to peacekeeping missions in Kosovo, Bosnia, and the Sinai, to security operations at home, our Soldiers must remain vigilant at all times to the changing world around them.

Our primary focus is Iraq, where Army personnel account for 133,300 of the overall U.S. force of 156,400 men and women. Our coalition allies, primarily the United Kingdom but increasingly, with forces arriving from countries such as Italy and the Netherlands, a multinational group, provide a further 12,400 people.

Figure 4 illustrates our force disposition in Iraq. Security in the central corridor, including Baghdad, is the responsibility of the 1st Armored Division, the 2nd Armored Cavalry Regiment, and the 2nd Brigade of the 82nd Airborne Division. To the west is based the 3rd Infantry Division and, toward the Syrian and Jordanian borders, the 3rd Armored Cavalry Regiment. The large area of operations north of Baghdad is the responsibility of the 4th Infantry Division, assisted by the 173rd Airborne Brigade and supported in the Syrian, Iranian, and Turkish border regions by the 101st Airborne Division Air Assault. The southern sector of Iraq is controlled by the 1st Marine Expeditionary Force and the U.K. division. A

Special Forces group is operating in the west. We have in addition 34,000 troops based in Kuwait.

Back home, the Army is heavily committed to the Homeland Security effort. Our anti-terrorist role within the United States is to support the civil authorities through Operation Noble Eagle, which has mobilized more than 16,000 National Guard Soldiers to protect critical infrastructure, notably airports, and to help secure the country's borders. We additionally assist in providing security for major public events: in January 2003, for example, Soldiers were assigned to guard key infrastructure sites during Super Bowl XXXVII.

Under the mandate of the National Defense Authorization Act, the Army is creating Civil Support Teams that will be assigned one to each state. The responsibilities of these teams will include identifying chemical, biological, radiological, nuclear, and explosive (CBRNE) agents and substances, assessing the consequences of threatened or actual attack, advising on response measures, and assisting with requests for additional support. The Office of the Secretary of Defense has certified 30 of 32 teams, and the Army is working to establish the 18 other required teams. Collectively, the certified teams have performed 890 operational missions since September 11, 2001. In addition to these measures taken in support of Homeland Security, the Army has assigned dedicated groups of both active and Reserve component personnel to training, doctrine and planning efforts, and the execution of DoD missions in support of the civil authorities.



An infantryman scans the Caribbean Sea while conducting a dismounted patrol of the Camp Delta perimeter in Guantanamo Bay, Cuba. The Soldier is assigned to Company C, 1st Battalion, 181st Infantry Regiment, 29th Infantry Division, Massachusetts Army National Guard. Photo courtesy of the Department of Defense.





Soldiers use an Avenger weapons system to fire a heat-seeking Stinger missile during live-fire training at Pohakuloa Training Area in Hawaii. U.S. Army photo by PFC. Cheryl Ransford.

We are also heavily committed to force protection measures, for the Army as well as for other arms of the military. In February 2003, more than 8,000 Army National Guard Soldiers supported Air Force security efforts, a commitment that eventually could extend to 9,500 Soldiers. Securing the detention facilities and detainees at Guantanamo Bay additionally requires approximately 1,500 Army personnel, 50 percent of whom are military police.

Measures taken in FY 2003 to improve the Army's warfighting capability include the deployment of new Ground Mobile Defense (GMD) assets, acceleration of the fielding of the Patriot Advanced Capability 3 (PAC3) system, and development of directed-energy weapons. We were scheduled to assume control of the Medium Extended Air Defense System (MEADS) program in FY 2003, with the goal of fielding it by FY 2012. MEADS is a transformational program of Objective Force quality and is a significant improvement—being both more accurate and more sustainable—on the Patriot system. Capable of transportation by C130 aircraft, MEADS covers a 360-degree radius compared to Patriot's 120 degrees, is effective against low-radar, cross-section cruise missile targets, and requires only 30 percent of Patriot's manpower.

A key element of Army Transformation will be the transformation of Soldier training. In October 2002, the Army released Field Manual (FM) 7-0, Training the Force. Updated along with other field manuals and publications to respond to changes in Army, joint,

multinational, and interagency operations, FM 7-0 is the capstone doctrinal manual for Army training and leader development. It provides the developmental methodology for training competent, confident Soldiers, and addresses both current and future Objective Force training requirements. A DoD-sponsored program defines four major training initiatives: building upon existing service interoperability training; linking component and Joint Chiefs of Staff (JCS) planning and execution; enhancing existing joint training exercises to address joint interoperability; and studying the requirement for dedicated joint training environments for functional warfighting and complex joint tasks. The Army hosted the first joint National Training Center (NTC) event at Fort Irwin, CA, in May 2003, and the U.S. Army Forces Command executed the second joint NTC event, JCS exercise Roving Sands, in June.

### **Transformation**

The Army Transformation program is fundamentally changing the way that we fight. Our ultimate goal, as embodied in the Objective Force, is to build a joint precision maneuver capability that will enable us to enter any theater of operations at the time and place of our choosing, to maneuver at will to gain positional advantage, to deliver precise joint fire, and, if necessary, to close with and destroy the enemy.

The Objective Force is an army that has been designed from the bottom up around the Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance (C4ISR) architecture. This single, integrated network will link

us to joint, interagency, and multinational forces. The Objective Force will be a rapidly deployable mounted formation, seamlessly integrated into the Joint Force and capable of delivering victory across the spectrum of military operations. It will be the world's most strategically relevant landpower, capable of decisive victory no matter the mission, no matter the threat, and no matter the risks.

To help guide Transformation, the Army is leveraging the lessons learned from extensive experimentation and wargaming. The Army's annual Title 10 Wargames, for example, provide critical insights that help guide the development of the Objective Force. The results of joint experiments such as Millennium Challenge 2002 and the Title 10 Wargames of other services, including Global Engagement, Navy Global, and Expeditionary Warrior, also inform these efforts.

The Army is committed more than ever to joint experimentation as a means of examining and assessing the potential Objective Force contribution at the strategic, operational, and tactical levels of joint warfare. Accordingly we are fully engaged in a joint

Concept Development and Experimentation (CD&E) Task Force that seeks to ensure that Army efforts are synchronized with those of the Joint Force. The Army's Title 10 Wargame, cohosted by Commander, Joint Forces Command, this year focused on the Joint Force that will fight the next battle. Linked to Joint Force Command's Pinnacle Impact 03 experiment, the wargame was conducted within the context of a future global scenario and the emerging Joint Operations Concept. Underlining the significance of these exercises, their funding was almost twice that of the FY 2002 wargame.

The Objective Force will leverage the most sophisticated technology and equipment available; however, in the final analysis its combat power will depend on the individual Soldier, his warfighting skills, situational curiosity, and awareness. It is the Soldier's ability to discern and to think, his ingenuity and resourcefulness, endurance, perseverance, and just plain grit that make him the most reliable weapon in our inventory. Soldiers, as they always have been, are the centerpiece of our formations.

## General Fund Performance Results: Creating a Cost Culture While Mitigating Risk

In 2003, the Army financial management community took the first steps toward creating a true cost culture. In creating this new mindset, all financial managers must bear in mind six questions.

1. How much do we have?
2. How well are we keeping track of spending what we already have?
3. How can we get better value out of what we are spending?
4. How can we produce more for less?
5. How much will we need for the future?
6. How do we measure the results of our efforts?

In developing a cost culture, the Army faces the challenge of changing how we think about our money. Our people have to understand why they should care about preserving, protecting, and defending every dollar that the U.S. Army receives. The Army must turn everyone's focus away from just looking at cold hard numbers on spreadsheets and budgets that track billions of dollars. Instead we must ingrain in their minds that the value of each and every dollar is no less real than the dollar that they would spend on their own mortgage, car, or coffee every day. This effort is intertwined with objectively measuring our results and realizing that we must find more economical ways to operate—even if that means removing programs that are not achieving established performance measures.

**Table 1. Performance Metric: DoD Ratings on the President's Management Agenda (PMA)**

Initiative	Strategic management of human capital	Competitive sourcing	Financial management	E-government	Budget and performance integration
FY 2003 Status 1st Qtr	Y	R	R	R	Y
FY 2003 Progress 1st Qtr	G	Y	G	G	G
FY 2003 Status 2nd Qtr	Y	R	R	R	Y
FY 2003 Progress 2nd Qtr	G	Y	G	G	G
FY 2003 Status 3rd Qtr	Y	Y	R	R	Y
FY 2003 Progress 3rd Qtr	G	Y	G	G	G
FY 2003 Status 4th Qtr	Y	Y	R	R	Y
FY 2003 Progress 4th Qtr	G	Y	G	G	G

Legend: R=red; Y=yellow; G=green.

The cost culture effort is actually born out of the Government Performance and Results Act (GPRA) of 1993, which first mandated performance management for the services. GPRA seeks to improve government-wide program effectiveness, government accountability, and ultimately public confidence by requiring federal agencies to identify measurable annual performance goals against which actual achievements can be compared. Additionally, each agency is required to submit a comprehensive strategic plan that identifies its major goals and objectives. The DoD Strategic Plan is defined in the Quadrennial Defense Review (QDR) of September 2001, which established a four-dimensional risk framework designed to ensure that DoD is appropriately sized, shaped, postured, and committed. In support of the risk management framework, the Army has identified a series of performance measures to enable the assessment of progress in key performance areas toward the accomplishment of DoD policy goals. These performance measures, which are described in the following section, serve as a guide for the senior Army leadership in making the decisions that will assure its future readiness.

### The President's Management Agenda

Army Performance Management efforts start at a high level with the President's Management Agenda (PMA).

**Metric Description.** The Army is a key player in DoD's portion of the PMA. The report was first introduced in summer 2001 and is only available at

DoD level (OSD plans to begin breaking it down quarterly by service in 2004).

The PMA identifies five initiatives (see Table 1) designed to improve management and service to our citizens. The President initiated this process in an effort to address deficiencies and expand performance. This is not just a requirement for DoD, but all federal departments and agencies. The President has charged the Office of Management and Budget (OMB) with monitoring progress and reporting to him quarterly.

The status (initial or current state) and progress (efforts toward achieving the goal) of departments and agencies in implementing the PMA (in each of the five initiatives) are measured using a "stoplight" metric. "Green" indicates that the organization meets all core criteria; "yellow" indicates that it meets some but not all core criteria, with no "red" conditions; and "red" indicates that it meets any one "red" condition. The Executive Branch Scorecard depicts how well a department or agency is executing the management initiatives and where it scores at a given point in time against the overall standards for success.

**Performance Results:** By embracing transformation as our primary organizational mission, the Defense Department is making every effort to implement policies and procedures that accentuate efficiency and sound management principles DoD-wide. We are confident this will be reflected positively as we progress through each fiscal year.

Following is a brief description of each initiative and effort the Army has undertaken to date toward successful implementation of the PMA:

- **Human Capital.** The Department has developed a Human Resource Strategy that has been briefed to the Senior Executive Council, the Director of the Office of Personnel Management, and representatives of OMB. The Department has also forwarded a Workforce Restructuring Plan to OMB, describing our organizational plans to meet workforce needs and redirect resources from Headquarters to direct service. For its tremendous efforts on this initiative, as of the 4th Quarter, FY 2002, the Department received a score of “yellow” on status and “green” on progress.
- **Competitive Sourcing.** DoD has a competition goal of 226,000 positions. The Department will meet the OMB immediate goal of competing 15 percent of these positions by FY 2003. The remaining positions will be reviewed with a focus on the core competencies of the Department. The Business Initiatives Council is overseeing this process. Currently, this initiative stands at “yellow” on progress from OMB.
- **Financial Management.** The Office of the Secretary of Defense established a Financial Management Modernization Program Office to oversee development of a DoD-wide financial enterprise architecture. The Department plans to use a major technical support contract for a 1-year effort to produce the architecture and a transition plan; the contract was awarded April

2002. The plan for the modernization effort has been briefed to OMB and received a “green” progress rating.

- **E-Government.** Of the 25 initiatives identified by the President’s Management Council, 17 involve DoD activities. The Department is exploring the possibility of taking an active leadership role in nine of those initiatives. In conjunction with OMB, the Department will improve management processes relating to the creation and description of business cases for information technology (IT) initiatives. The Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) is also working closely with OMB on other scorecard elements such as the enterprise architecture, business cases (Form 300 reports) for IT investments and IT security. The Department received a “green” score on its E-Government progress.
- **Budget and Performance Integration.** The Under Secretary of Defense (Comptroller) is overseeing a Department-wide effort to identify meaningful performance metrics for use in managing and justifying program resources. This effort will begin with the identification of additional metrics for use in developing the FY 2004 President’s budget. Additional efforts are underway to integrate performance metrics into all phases of the Department’s Planning, Programming, and Budgeting System. The Department’s score currently stands at “green” on progress.

Further information on the President’s Management Agenda is available at [Results.gov](http://Results.gov).

### DoD Risk Management Dimensions

Following the September 2001 QDR, DoD developed a four-dimensional risk assessment framework to enable it to evaluate tradeoffs between fundamental objectives that have been made unavoidable by resource constraints. Using this framework, DoD addresses the issues associated with developing and evaluating the operational force, its infrastructure, and key enabling capabilities. The Army, working with DoD, has codified performance measures that align with the four QDR “Risk Areas” and then expressed these measures in what has become the Secretary of Defense’s (SECDEF) Instrument Panel. Each measure is supported by a quantifiable output. Further, the measures that make up the SECDEF’s Instrument panel are addressed in the current Annual Defense Report (ADR).

The Army’s ability to respond quickly anywhere in the world is a direct result of its commitment to maintaining readiness. The readiness we enjoy today is in turn a direct result of many years of investment in high-quality people, training, doctrine, force mix, modernization, and leader development. The following performance measures ensure that the Army maintains ready forces, properly supplied, with the ability to respond to any crisis, to shape the international environment and to protect America’s citizens, interests, and friends whenever and wherever needed.



**Table 2. Enlisted Recruiting**

	FY 2001 Actual	FY 2002 Actual	FY 2003	
			Goal	Actual
Active Army	75,855	79,585	73,800	74,132
National Guard	61,956	63,251	62,000	84,202
Army Reserve	42,097	41,697	37,900	39,223



Tomorrow's Soldiers participated in a basic training exercise at Fort Sill, Oklahoma. Basic training is 9 weeks of grueling discipline.

**Table 3. Active Component Enlisted Retention Rates**

	FY 2001	FY 2002	FY 2003	
			Goal	Actual
First-Term Soldiers	20,000	19,433	19,821	21,838
Second-Term Soldiers	23,727	23,074	18,422	19,509



Members of the U.S. Military Academy-West Point Class of 2003 take their oath during graduation exercises May 31, 2003.

### Risk Area: Force Management

The primary mission of Army personnel management is to put the right person with the right skills in the right place at the right time. As it strives to fulfill this mission it finds itself asking more of a smaller force, making it imperative that it have the best people available to perform our duties while making it more flexible. No amount of technical superiority will enable the Army to respond to its future challenges if it fails to maintain the quality of its personnel by not making the investments necessary to develop them to their full potential. Recruiting and training the best Soldiers, officers, and civilians in the proper mix of specialties and grade levels requires an adequate compensation package, sufficient medical care and retirement programs, and opportunities for career advancement. The Army accordingly is committed to providing adequate funding to recruit, train, and retain our personnel to congressionally mandated strength and quality standards. The following performance measures assist us in tracking our progress toward ensuring that it meets the needs of Soldiers.

#### Performance Measure: Enlisted Recruiting

**Metric:** Enlisted recruiting represents the projected number of new personnel needed each year to maintain statutorily defined military end strengths and the proper distribution by rank.

**Performance Result:** Due to the ongoing war against terrorism, all components were allowed to exceed their recruiting goals for FY 2003, as shown in Table 2.

#### Performance Measure: Active Component Enlisted Retention Rates

**Metric:** Army retention goals have been fluctuating for almost a decade, as the Army has moved toward the force reduction targets made at the end of the Cold War. The draw-down is now effectively over, and personnel levels are stabilizing. Retention rates are based on required staffing in each pay grade; unlike the other services, the Army has historically managed retention by setting firm numeric targets for the number of personnel expected to reenlist.

**Performance Results:** Table 3 shows that for FY 2003 the Army exceeded its retention goals for both first and second-term Soldiers. The Army's successes can be attributed to great leadership at all levels of command and Soldiers' willingness to serve in a time of war. Additionally, the Army used re-enlistment incentives such as bonuses to help entice Soldiers who were undecided as to whether to continue their career in the military.

#### Performance Measure: Component End Strength

**Metric:** Component end-strength authorizations are set forth in the National Defense Authorization Act for the fiscal year. Components are compelled to budget and execute to that end strength by the end of the fiscal year. The component actual end strength for each quarter will be evaluated against the authorized end strengths for that fiscal year.

**Performance Results:** In his Declaration of National Emergency by Reason of Certain Terrorist Threats,

the President, among other things, waived the end-strength requirement during the time of national emergency. Components, however, have been directed to attempt to meet the 2 percentage criterion, though exceptions are authorized based on the operational situation. In FY 2003, the Army Reserve provided more than 15 million man-days in support of various Army Missions to include Enduring Freedom, Noble Eagle, and Joint Endeavor. All these missions require boots on the ground, and the Army Reserve was able to meet and slightly exceed its peacetime authorization.

During FY 2003, the Army waived the end strength and exceeded their goal, as displayed in Table 4. Dependent on world circumstances, the active Army plans to reach authorized end strength by 1st Quarter, FY 2005 in compliance with statutes and strength reporting procedures.

#### Performance Measure: Civilian Force Costs

**Metric:** Civilian force costs are currently being reported annually to the Office of Personnel Management (OPM) in a Work Years and Personnel Costs Report (WYPC) aggregated at the DoD level. Reports are required on three forms: Basic and Premium Work Years and Pay, Cost of Employees' Benefits, and Leave Earned and Used. Work years and cost data identify the various components of basic pay, premium pay, benefits, separation incentive pay, and severance pay for federal civilian employment. This metric can be used to provide a broad overview of civilian compensation costs. It is not an effective

measure of the success of any individual personnel program or benefit. For example, additional benefit costs do not indicate successful use of recruitment or retention incentives. Even increased recruitment bonus or retention allowance payment amounts would only measure usage rates, not the change in recruitment or retention based on payment of the incentive.

**Performance Results:** The OPM report will not be published until December 2003.

#### Risk Area: Operational

The Army needs to manage its forces such that they are appropriately sized to accomplish both near-term war-fighting tasks and small-scale contingencies. The metrics used in the past to assess readiness were designed and evaluated against a narrow set of military missions and associated tasks. With the nation now facing a broader range of threat, the measurement of operational risk must be expanded to reflect the full range of capabilities that U.S. forces must possess and the additional missions that they must perform. The following performance measures accordingly are designed to assess the Army's capability to meet the expanded role our nation's military forces must now play.

#### Performance Measure: Flying Hours

**Metric:** Number of aircraft flying hours per month, including training and maintenance activities, required for active, Army Reserve, and National Guard components to maintain pilot and crew proficiency.

**Table 4. Component End Strength**

	FY 2001 Actual	FY 2002 Actual	FY 2003	
			Authorized	Actual
Active Army	480,801	486,542	480,000	503,600
Percentage over/ (under) authorization	0%	1%	N/A	5%
Army National Guard	351,829	351,078	350,000	351,091
Percentage over/ (under) authorization	0%	0%	N/A	>1%
Army Reserve	206,892	206,682	205,000	211,890
Percentage over/ (under) authorization	0%	1%	N/A	3%

**Table 5. Civilian Force Costs**

	FY 2003 Actual <sup>a</sup>	FY 2004 Projected	FY 2005 Projected
Base Pay	\$11,207,423	\$11,040,656	\$11,555,611
Benefit Pay	2,871,463	2,873,518	3,005,987
Separation Pay	44206	56,008	65,079
Total	\$14,123,092	\$13,970,182	\$14,626,677

<sup>a</sup> FY 2003 from Data Component Summary of PB 2004-2005



A Soldier of the 101st Airborne Division's 159th Aviation Brigade guides a UH-60 Blackhawk helicopter ambulance to a landing during a medical evacuation training mission near Mosul, Iraq. *U.S. Army photo by Spc. Kieran Moore.*

**Table 6. Flying Hours**

	FY 2001	FY 2002	FY 2003	
			Goal	Actual
Active	13.1	13.1	14.5	15.1
Army Reserve	8.9	8.9	9.0	5.3
National Guard	5.9	6.6	8.4	7.5

Note: The active Army converted to Crew OPTEMPO in FY 2000 to meet the requirements of the Aviation Restructure Initiative (ARI), which increased the number of aviators in combat units from a 1-to-1 aircraft-to-crew ratio to 1-to-1.23.



An M-1 tank from the 3rd Infantry Division fires during an exercise at Udairi Range Complex in Kuwait.

**Table 7. Number of Tank Miles per Year**

	FY 2001	FY 2002	FY 2003	
			Goal	Actual
Active	787	944	933	1,071
National Guard	113	123	177	154

<sup>a</sup> FY 2002 was first year of new reporting methodology reflecting both live and virtual miles.

<sup>b</sup> Composite average of all National Guard units, including annual mileage for ARNG Divisions and Enhanced Brigades.

**Performance Results:** Table 6 shows that during FY 2003, the Total Army executed 97.5 percent of its flying hour program. Though Operation Iraqi Freedom influenced actual execution, two MACOMs that did not participate in Operation Iraqi Freedom, United States Army Pacific (USARPAC) and Eighth United States Army (EUSA-Korea), both executed their complete programs.

#### **Performance Measure: Number of Tank Miles per Year**

**Metric:** Tank miles represents the average level of peacetime activity—including in-field training, combat simulations, and equipment maintenance—needed to achieve wartime proficiency standards, as defined by Army doctrine.

**Performance Results:** Overall during FY 2003, the Army executed 110.6 percent of its total program. Operation Iraqi Freedom significantly influenced execution; however, training time was lost as equipment was deployed to and from Operation Iraqi Freedom. Actual tank miles executed are shown in Table 7.

#### **Risk Area: Future Challenges**

Since 9/11 the Army has fought and won two major campaigns. Despite the upheavals of the last decade, the U.S. Army has conducted all of its operations successfully. Nonetheless, we must change in order to take advantage of emerging technologies. We cannot take future success for granted or assume that no other nation or group will attempt to challenge it in the

future. The attacks of September 2001 made that clear. Nor can America predict with confidence which adversaries will pose threats. The types of military capabilities that will be used to challenge U.S. interests and military forces can, however, be identified and understood. Future adversaries will seek to attack America where it is vulnerable, using asymmetric approaches such as electronic terrorism and attacks against domestic infrastructure.

It is clear that the Army must shift from a threat-based to a capabilities-based paradigm. When assessing the risk of future challenges, it can no longer focus on extant threats of military engagement, but must address its capability to meet potential new challenges. The absence of a current, immediate threat is not justification to disregard a technology that could overcome that; on the contrary, introducing technology early both furnishes a military advantage and may dissuade a potential adversary from pursuing a similar capability.

How do we know we are transforming? We must observe how the culture is changing—how things are done differently from the past and what must we accomplish next.

#### **Performance Measure: Successful Completion of Operational Test and Evaluation Events**

**Metric:** The Army's test and evaluation programs aim to ensure that all forces are provided with weapons systems and equipment that are effective and suitable for the missions they are designed to accomplish. In

the future, combat systems will be increasingly interoperable and interdependent. New systems entering service will have to function effectively not only with other systems in the U.S. inventory but also with weaponry and equipment operated by allied and coalition forces. The increased complexity of modern warfare will demand rigorous operational assessments and testing throughout the acquisition cycle. The purpose of these assessments is to ascertain as quickly as possible how a new system or technology will perform from an operational perspective.

**Performance Results:** The Army established a goal to successfully complete 62 Operational Test and Evaluation Events for FY 2003. During FY 2003, the Army completed 61 of these operational test events, or 98 percent, as shown in Table 8. The one event that was not completed was Authorized Stockage List Mobility System (ASLMS); this operational test event was spilled due to unit availability. Given the current world situation and demands on Army units, we believe this may happen to a greater extent in FY 2004. The Army is exploring any and all options to minimize this situation.

#### Risk Area: Institutional

The Army, along with all U.S. military forces and operations, is changing dramatically in response to resource constraints and advances in technology. Effecting changes in the way the Army conducts its support operations will require that business processes also be transformed in order to achieve the most efficient support operations possible. Much like the

combat forces, which are becoming more agile and capable, the Army's goal is to produce an increasingly responsive support structure. Some of the specific types and areas of infrastructure change are financial management, public-private sector competitions, and the disposal of excess property.

Army financial systems are transitioning to a cost culture that maximizes each dollar spent. This cost culture strives to better understand how overhead and indirect costs directly affect military capabilities.

#### Performance Measure: Public-Private Sector Competitions

**Metric:** As part of its efforts to reduce infrastructure, the Army conducts regular reviews of various functions and their associated billets. As a result of these reviews, some functions are retained in-house, others are outsourced, and others are re-engineered.

**Performance Results:** The goal for this year was to review 3,576 billets. The Army was able to exceed this goal by over two-fold, as displayed in Table 9.

#### Performance Measure: Disposal of Excess Property

**Metric:** The maintenance of excess property is wasteful of scarce military resources. Disposal of such property frees up funds that can be applied to force modernization and readiness.

**Performance Results:** For FY 2003 (see Table 10), although ACSIM continued to dispose of excess property at a high rate, it did miss the targeted goal of \$172,309 thousand.

**Table 8. Successful Completion of Operational Test and Evaluation Events**

	FY 2001	FY 2002	FY 2003	
			Goal	Actual
Percentage of OT&E events successfully completed	100%	100%	100%	98%

**Table 9. Public Private Sector Competitions**

	FY 2001	FY 2002	FY 2003	
			Goal	Actual
Number of positions subject to A-76 competitions or strategic sourcing reviews	5,115	2,646	3,576	9,756

**Table 10. Disposal of Excess Property**

	FY 2001 Actual	FY 2002 Actual	FY 2003	
			Goal	Actual
BRAC Excess Acreage Remaining for Disposal <sup>1</sup>	135,310	125,854	38,682	38,632
BRAC Acres Disposed of During the Fiscal Year <sup>2</sup>	65,940	8,016	100,000	100,955
BRAC \$K spent during FY	\$278,092	\$167,814	\$172,309	\$164,028

<sup>1</sup> The acreage numbers reported for FY 2001 and FY 2002 changed due to land surveys that became available after the printing of the FY 2002 annual financial statements.

<sup>2</sup> The acreage disposed numbers for FY 2001 and FY 2002 changed since the FY 2002 annual financial statements is the result of BRAC being a multi-year appropriation.



**Performance Measure: Percentage of Paperless Transactions**

**Metric:** The Army is committed to employing contemporary information technology and commercial best practices to reinvent its contracting processes. Contracting, and particularly contracting related to high-cost weapon systems, consumes a large portion of the defense budget and employs a significant portion of the Army workforce. Over time, paperless contracting will contribute to a reduction in acquisition cycle times and to the streamlining of the acquisition workforce.

The Defense Reform Initiative (DRI) set the goal that 90 percent of selected transactions be performed electronically by FY 2000, and The National Partnership for Reinventing Government (NPR) additionally set the goal of reducing by 50 percent the number of paper-based transactions performed in FY 2000 from the FY 1997 baseline.

**Performance Results:** In previous years, the data collections involved manual methods and included data transmitted by facsimiles, emails, form flow, as well as data captured through electronic systems. The FY 2003 data collection, shown in Table 11, includes only data captured through electronic means. The data contained in the report was obtained from directly extracting data transacted through the Army electronic contract writing systems (Procurement Automated Data & Document Systems [PADDS] and Standard Procurement System [SPS]). This report will be rebaselined in FY 2004 to account for only

transactions within the end-to-end electronic procurement system, which will more accurately reflect the current definition of electronic commerce.

**Performance Measure: Fund to a 67-Year Recapitalization Rate by 2007**

**Metric:** The facilities recapitalization metric (FRM) is a performance indicator that measures the rate at which an inventory of facilities is being recapitalized. The term “recapitalization” means to restore or modernize facilities. Recapitalization may (or may not) involve total replacement of individual facilities; recapitalization often occurs incrementally over time without a complete replacement.

The performance goal for FRM equals the average expected service life (ESL) of the facilities inventory (estimated to be 67 years, based on benchmarks developed by a panel of Defense engineers in 1997). The ESL, in turn, is a function of facilities sustainment. “Sustainment” means routine maintenance and repair necessary to achieve the ESL. To compute a normal ESL, full sustainment levels must be assumed. A reduced ESL results from less than full sustainment. For this reason, the metrics for facilities recapitalization and facilities sustainment are unavoidably linked and should be considered together.

Sustainment levels required to achieve a normal ESL are benchmarked to commercial per unit costs; for example, \$1.89 per square foot annually is needed to properly sustain the aircraft maintenance hangar inventory for a 50-year life cycle. The facilities

**Table 11. Percentage of Paperless Transactions**

	FY 2001 Actual	FY 2002 Actual	FY 2003	
			Goal	Actual
DRI Goals				
Purchase requests	93%	94%	90%	69%
Funding documents	93%	94%	90%	69%
Solicitations	98%	98%	90%	36%
Awards/Modifications	95%	94%	90%	61%
NPR Goal				
Total electronic contracting and payment transactions	95%	95%	90%	59%

sustainment model (FSM) adjusts these costs to local areas and assigns the costs to DoD components and funding sources.

The recapitalization rate—measured by FRM in years—is compared to service life benchmarks for various types of facilities. For example, the ESL of a pier is 75 years, and the ESL of a dental clinic is 50 years (provided the facilities are fully sustained during that time). The average of all the ESL benchmarks, weighted by the value of the facilities represented by each benchmark, is 67 years. Weighting is required to normalize the ESL. For example, without weighting, 50 years is the ESL of a hypothetical inventory consisting of administrative buildings (75-year ESL) and fences (25-year ESL). But fences are insignificant compared to administrative buildings—DoD has \$22 billion worth of administrative buildings, but only \$3 billion worth of fences and related structures—and should not have equal weight. The ESL of this hypothetical inventory when weighted by plant replacement value is 68 years, not 50 years.

For evaluating planned performance, both metrics (FSM and FRM) are converted to dollars (annual funding requirements) and compared to funded programs in the DoD Future Years Defense Program (FYDP). Both metrics can also be used to measure executed performance.

**Performance Results:** Shortfalls in facilities recapitalization (and associated sustainment) were considered in development of the amended FY 2002

and FY 2003 budgets (see Table 12). Although performance as measured by the budgeted recapitalization and sustainment rates improved from FY 2001 levels, the targets (67-year recapitalization rate and full sustainment) were not achieved in either budget. As a result of not achieving full sustainment levels, the theoretical service life of the inventories (67 years) suffered another incremental reduction. As a result of not achieving a 67-year recapitalization rate, obsolescence in the facilities inventories increased incrementally. The cumulative and compounding effect of these shortfalls is measured by the number of C-3 and C-4 facilities reported in the Department’s readiness reports (68 percent of facility classes are reported as having serious deficiencies that adversely impact mission performance).

Because of the way these metrics are constructed, the underperforming results of FY 2002 and FY 2003 do not directly affect the sustainment and recapitalization performance targets for FY 2004. The goal for sustainment remains full sustainment; a 7 percent shortfall in programmed sustainment in FY 2003 cannot be offset with 7 percent overage in FY 2004. The interim goal for recapitalization remains 67 years, even though past performance has already reduced the service life of the facilities inventory. The direct effect of undersustainment and underrecapitalization is captured in the accelerated recapitalization rate that is required to restore readiness to at least C-2 status by 2010.

**Table 12. Funding Recapitalization Rate**

	FY 2001 Actual	FY 2002 Actual	FY 2003	
			Goal	Actual
Facilities recapitalization metric-FRM (years)	NA	NA	122.6	104.2
Facilities sustainment model-FSM (percent)	NA	76.4% (O&M only)	93.6% (O&M only)	73.2%

\* FSM did not exist in FY 2001; this is an estimate.



Improved housing shows our commitment to all Soldiers and their families.

**Table 13. Inadequate Housing Units**

	FY 2001 Actual	FY 2002 Actual	FY 2003	
			Goal	Actual
Number of inadequate family housing units	71,606	51,298	N/A*	38,041
Percentage of total family housing units	66%	52%	N/A*	41%

\* Interim targets have not been established because housing privatization negotiations often change the scope of projects, making targets impractical.

**Table 14. Customer Wait Time**

	FY 2001	FY 2002	FY 2003	
			Goal	Actual
Customer wait time (days)	18	16	16	21

### **Performance Measure: Eliminate Inadequate Family Housing by 2007**

**Metric:** The Secretary of Defense has established a goal to eliminate all inadequate family housing by the end of FY 2007. Each Military Service has developed a Family Housing Master Plan that outlines the approach it will follow to achieve this long-term goal. These plans identify the program requirements, by year, to eliminate inadequate family housing by FY 2007.

Inadequate housing, in general, is any unit that requires a major repair, component upgrade, component replacement, or total upgrade. Each service has evaluated its housing and identified inadequate units. Each service has then developed a plan to eliminate this inadequate housing through a combination of traditional military construction, operations and maintenance support, and privatization.

**Performance Results:** The Department reduced inadequate family housing through revitalization, demolition, and privatization. Interim targets have not been established because housing privatization negotiations often change the scope of projects, making targets impractical. Further, the housing privatization process takes over a year to complete, and during this time, varying economic conditions and

financial arrangements between prospective contractors and their financial lenders can change. This would cancel a project and return inadequate inventory to the fiscal year, thereby skewing targets. See Table 13 for actual results.

### **Performance Measure: Reduce Customer Wait Time (days)**

**Metric:** Customer Wait Time (CWT) measures the elapsed time from order to receipt when a customer orders an item of material. The customer's order may be filled from assets on hand at the customer's military installation or naval vessel, or through the wholesale logistics system. For purposes of this enterprise-level metric, CWT includes orders for spare and repair parts ordered by organizational maintenance activities.

**Performance Results:** Reporting of CWT began in FY 2001. The Army set a reduction target of one day per year for FY 2002, FY 2003, and FY 2004 from the baseline of FY 2001 actual data. FY 2002 actual of 16 days exceeded the target of 17 days. The number of days actually increased in FY 2003 (see Table 14) due to the global war on terror. Although supplies of material matched the needs of the force, the increase in time reflects a problem with distribution due to the sheer volume of material.

## Management Integrity

The Army's approach to assuring management control and integrity is anchored in the fundamental philosophy that all commanders and managers have an inherent management control responsibility. The Headquarters Department of the Army (HQDA) (the Integrating Subsystem) functional proponents are responsible for establishing sound management controls in their policy directives and for exercising oversight to ensure compliance with these policies. Commanders and managers throughout the Army are responsible for establishing and maintaining the control and integrity of their operations.

In the 20 reporting years since the inception of the Army's management control process, Army commanders and managers have reported 1,343 material weaknesses to the Secretary. These were the weaknesses remaining after a filtering and value-added reporting process from line managers up through each higher echelon of management. After aggregating similar problems and weeding out lesser issues, the Army reported 230 new material weaknesses to DoD. Only 13 of these remain open. The following is the status of the material weakness:

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Open material weaknesses at September 30, 2002 . . .	10
Plus: New material weaknesses identified in FY 2003 .	3
Less: Material weaknesses corrected in FY 2003 . . . .	0
Open material weaknesses at September 30, 2003 . . .	13

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The following section identifies and provides a summary of the three new material weaknesses identified during FY 2003.

## Weaknesses Identified during FY 2003

The Army identified three new management control weaknesses during FY 2003. The following sections provide a brief description of each weakness and the target date for correction.

### Financial Reporting of Real Property

The Army's real property databases do not allow for depreciation, and subsequent entries in dollar values override previous dollar values with no audit trail of transactions.

The attempt to interface the Defense Property Accounting System (DPAS) with the Installation Facilities System (IFS) did not work for real property financial statement reporting. Data mismatches and negative numbers from IFS were not allowed in DPAS, resulting in dollar values being overridden and audit trails being lost. The decision was made to discontinue the DPAS interface and to modify IFS to calculate depreciation and run financial reports directly from each site. In October 2002, the Army requested a waiver from OSD to permit it to modify IFS to process and capture financial statement information. The OSD approval was received in May 2003. The target date for correction of this weakness is the 4th Quarter, FY 2004.

### Reserve Component Mobilization Accountability

There is a lack of synchronization among automated management tools that is necessary to ensure Reserve component mobilization accountability. Interagency and management controls must allow for the tracking

of Reserve component Soldiers and units as they progress through the mobilization pipeline. Of particular concern is the tracking of Reserve personnel from home station to mobilization station to duty station, through deployment, redeployment, and demobilization or release from active duty. This challenge is further complicated for personnel in a medical hold status who remain classified as active duty according to original Headquarters Department of Army mobilization orders even after demobilization of the parent unit.

Improper use of Derivative Unit Identified Costs has further exacerbated force tracking. Limitations imposed by the use of dual military pay systems (the Defense Joint Military Pay System—Active Component and Defense Joint Military Pay System—Reserve Component) also impair the accountability of mobilized personnel.

The target date to correct this weakness is the 4th Quarter, FY 2004.

### Contract Administration of Service Contracts

The U.S. Army Audit Agency (USAAA) has identified a significant weakness in the administering of service contracts. Service contracts represent an ever-increasing percentage of overall contract dollars and have surpassed the dollars awarded under major weapons system programs.

Significant audit findings include ineffective planning for quality assurance requirements. Although





Combat engineers from the 671st Engineer Company, an Army Reserve unit from Portland, Oregon, patrol the Tigris River in Baghdad, Iraq.

contracting officers generally have appointed personnel to undertake quality assurance evaluations of contracts, they often have not made clear the responsibilities and limitations of authority of these evaluators. They typically also have failed to ensure that the evaluators are properly versed in quality assurance procedures and that they understand specific contract requirements.

There furthermore exists an overall lack of surveillance planning, resulting in lack of a systematic inspection system and ineffective documentation of contract performance. Proper quality assurance procedures require that the surveillance plans serve as roadmaps for monitoring contractor performance. This is critical to the establishment of strong internal controls that would ensure that the Army receives value for its service-contracting dollar. Due in part to the lack of documentation, procedures for validating and approving contractor invoices sometimes are not properly defined.

Several Major Army Commands (MACOMs) have actions ongoing to improve various aspects of contracting administration. These actions are steps in the right direction, but an overall strategy for administering contracts is needed. The current target date to correct this weakness is the 4th Quarter, FY 2004.

### Previously Reported Weaknesses

The Army reported three weaknesses last year that it had expected to close during FY 2003. Various factors

prevented this from happening. The following sections provide a brief description of each weakness and the target date for correction.

### Financial Reporting of General Equipment

The Army does not yet meet the financial reporting requirements for general equipment because it cannot yet present the historical cost and depreciation of those assets in its financial statements. While the Army has physical control over these assets, the absence of any requirement that its original property accountability systems provide for proprietary accounting means that historical costs and depreciation expenses were not maintained by those systems.

To meet the requirements of this standard, the Army implemented the Defense Property Accountability System (DPAS), a Chief Financial Officer Act-compliant system for reporting real property and general equipment. DPAS will replace or interface with existing noncompliant systems and bring the Army into compliance with Federal Accounting Standards.

Failure to meet this standard for financial reporting does not mean that the Army lacks accountability of its property. However, the Army's inability to identify an item's acquisition date and cost prevents the computation of depreciation and the determination of value for financial reporting. This inability to accurately report the financial value of real property and general equipment in turn has been a major factor

in the Army's failure to obtain an unqualified audit opinion on its annual financial statements.

This material weakness has been restructured to treat separately the general equipment and real property portions. In FY 2002, the Army completed fielding of DPAS that should resolve the problems associated with the financial reporting of general equipment. We intend to close this material weakness by the 2nd Quarter, FY 2004, after the USAAA has validated the effectiveness of our corrective actions.

#### **Army Purchase Card Program**

The General Accounting Office (GAO) identified a lack of adherence by field activities to established purchase card internal controls. Although no substantial instances of fraud, waste, or abuse were identified, an environment existed that could have easily fostered fraud. As a result, GAO has expanded the audit to include a review of the Army and other DoD components.

The Army has positively addressed every GAO finding regarding the Army Purchase Card Program. To correct this problem, the Office of the Assistant Secretary of the Army (Acquisition, Logistics and Technology) (OASA (AL&T)) has aggressively sought to establish positive controls in those areas of weaknesses that have been found. The new target date for completion is the 1st Quarter, FY 2004.

#### **Information Systems Security**

The Army's unclassified automated information systems and telecommunications networks have in the

past been attacked and penetrated by unauthorized personnel. The Army responded to these attacks with measures to identify them; with incident response and containment and the implementation of countermeasures; and with Information Systems Security (INFOSEC) education, training, awareness, and professional development. Base information systems and networks have been found nonetheless to be highly vulnerable to malicious attack. This places at risk the decisiveness, effectiveness, and potential safety of the warfighter: not only is the information that is processed and transmitted throughout the Army's systems vulnerable to compromise and exploitation by hostile forces, but control of the information systems and networks themselves also could be lost to hostile forces. Army INFOSEC policy and procedures for managing risk to our information systems, networks, and even our intelligent weapons systems clearly are outdated and must be brought into line with evolving DoD and national practices.

To correct these weaknesses, the Army has outlined in the Command and Control (C2) Protect Program Management Plan the measures that must be undertaken to ensure that the Army's portion of the Defense Information Infrastructure is adequately protected. The C2 Protect Program Management Plan is designed to manage and control the growth of C2 Protect Initiatives, is in consonance with the Army Enterprise Strategy, and supports the Defense Information Warfare effort. The target date for correcting this weakness is the 2nd Quarter, FY 2005.

## **Future Effects of Existing Conditions**

### **Force Management Risk**

Critical to Transformation is the need to determine the mix of civilian, military, and contractor personnel that will best assure the Army's success. This determination must include an assessment of core competencies across the full spectrum of military operations. As the Army seeks to increase its "tooth-to-tail" ratio, it must carefully weigh the important roles played by combat support and combat service support personnel. There is a temptation to reduce the number of personnel that perform these roles in order to convert their positions to combat roles, but there are some essential support positions that must be retained and filled by military personnel. Logistical support to the troops in combat in particular must not be compromised.

While many support tasks can be outsourced, the Army must ensure that it can meet the demands of "the last logistical mile." In many instances, it would not be appropriate to rely on contractors or civilian employees to perform these tasks. The Army must therefore balance the economic gains of outsourcing against the need to ensure that the military force structure can deliver the necessary logistics on the battlefield. Selecting the right structure for a force of 480,000 is a complex task involving many tradeoffs. The challenge facing the Army is to determine precisely the core competencies it requires to sustain combat operations and to ensure that it retains the right mix of combat and support troops.



Soldiers board an awaiting CH-47 Chinook helicopter at Shkin Firebase in Afghanistan. U.S. Army photo by Spc. C. Elijah Spencer.

## Operational Risk

The Army's current force is very similar to that of the Army that 12 years ago fought so decisively in Desert Storm. In the intervening years the nature of the threat facing America has evolved. The force that deployed in the first Gulf War was developed under a strategy that envisioned a scenario of two simultaneous major regional conflicts. The 2001 terrorist attacks on America introduced an enemy that would instead employ asymmetrical warfare to avoid our strengths and attack our vulnerabilities. It is difficult to assess exactly what form future threats will take. As a consequence, the Army has moved away from a threat-based force and is intent on building a capabilities-based force equipped to function across the full spectrum of military operations.

Identified as the Objective Force, this new force will fight in a noncontiguous manner and will be capable of rapid deployment in a crisis to either fight or ideally to deter conflict. It will have the capability of being projected anywhere in the world—not just to easily accessible areas with multiple air and seaports, but also to remote, landlocked, and infrastructure-poor areas. The importance of this capability was demonstrated in Afghanistan, where the rapid engagement of U.S. forces contrasted dramatically with the long build-up that preceded Desert Storm. Failure at this point to develop this capability to project sustainable combat power anywhere in the world—that is, failure to realize the Objective Force—could leave America's worldwide interests vulnerable to attack.

## Institutional Risk

The Army must make the best use of its resources in its day-to-day operations. This requires that it transform its business practices to improve its financial management and that it streamline its infrastructure.

Business practices have in the last decade changed fundamentally, leading to significantly greater productivity, lower costs, and higher-quality outputs. The Army has not kept pace. To free up resources that can be applied to the fielding of the Objective Force, we must transform how we do business. Many functional activities need to be examined and improved, streamlined, or eliminated. This requires imagination and innovation.

It is essential to the effort to reduce costs and increase productivity that Army leaders and managers be supplied with reliable information. The Army's inability thus far to achieve an unqualified audit opinion on its financial statements indicates that the information that our leaders are given is not reliable, with the result that Army resources are not being used to their best effect. The Army estimates that 80 percent of the data found in its financial systems comes from functional area systems such as logistics, personnel, acquisition, and other systems. Realizing the capability to deliver reliable information will require the integration of these functional management systems with financial management systems. Until this is done, the Army will continue to be at risk of suboptimizing its use of resources.

## Advancing the President's Management Agenda

The President's Management Agenda provides a route to greater efficiency and the means whereby the Army can identify the actions it must take to improve management performance at all levels. In the same way that the Army is reinventing itself as a fighting force, it is changing the way that it conducts the business of supporting that force.

The President's agenda contains five government-wide goals designed to improve federal management and to deliver results that matter to the American people. They reflect the Administration's commitment to achieve immediate, concrete, and measurable results. The five goals, which are being pursued in advance of, not instead of, other necessary management improvements, are mutually reinforcing. For example:

- Workforce planning and restructuring undertaken as part of the Strategic Management of Human Capital will be defined in terms of each agency's mission, goals, and objectives—a key element of Budget and Performance Integration.
- Agency restructuring is expected to incorporate organizational and staffing changes resulting from Competitive Sourcing and Expanded E-Government.
- Efforts toward Budget and Performance Integration will reflect improved program performance and savings achieved from

competitive sourcing and will benefit from the financial and cost accounting and information systems that are part of the effort to realize improved financial management.

In support of each of the five government-wide goals, Army Knowledge Management (AKM) has established five supporting goals. Three of the AKM goals support the Strategic Management of Human Capital and the other two are more closely aligned with E-Government. The AKM goals are:

1. Adopt governance and cultural changes to become a knowledge-based organization (Strategic Management of Human Capital)
2. Integrate knowledge management concepts and best business practices to promote the knowledge-based force (Strategic Management of Human Capital)
3. Manage the infostructure as an enterprise to enhance capabilities and efficiencies (E-Government)
4. Institutionalize Army Knowledge Online as the enterprise portal to provide universal, secure access for the entire Army (E-Government)
5. Harness human capital for the knowledge-based organization (Strategic Management of Human Capital)

A description of how the Army is undertaking each of the five government-wide goals is contained in the following sections.

*“Government likes to begin things—to declare grand new programs and causes. But good beginnings are not the measure of success. What matters in the end is completion. Performance. Results. Not just making promises, but making good on promises.”*

—President George W. Bush





## Strategic Management of Human Capital

A key element of successful personnel management is providing people with information and trusting them to use it to the benefit of the organization as a whole. The Army is taking steps to empower its Soldiers and civilian employees with greater knowledge.

Adopt governance and cultural changes to become a knowledge-based organization:

- The Army Chief Information Officer (CIO) Executive Board was chartered and has met quarterly since April 2001 to address enterprise issues and to provide information technology oversight.
- Army Regulation (AR) 25-1, Army Information Management, was revised in May 2002 to promulgate a minimum critical set of policies for Army Knowledge Management (AKM), Army Knowledge Online (AKO), and Common Access Cards and Public Key Infrastructure (CAC/PKI). A complete update of AR 25-1 is being prepared for publication in 2004.
- AKM Guidance Memo 1 (August 2001) established the five AKM goals, established the basic AKM requirements, and directed that everyone have an AKO account. AKM Guidance Memo 2 (June 2002) directed additional server reductions of 30 percent by end-FY 2003 and a reduction of 50 percent in the inventory of Army application systems by end-FY 2004. AKM Guidance Memo 3 (March 2003) implemented Personnel System Transformation, and AKM Guidance Memo 4 (July 2003) implemented a fully integrated logistics enterprise based on collaborative planning, knowledge management, and best business practices.
- Phase I of the Army IM/IT Realignment Plan was approved in January 2002 as part of the overall HQDA realignment.
- General Order 5 was signed in August 2002, establishing NETCOM. NETCOM was activated on October 1, 2002.

Integrate knowledge management concepts and best business practices to promote the knowledge-based force:

- Business Initiative Councils (BICs) have been formed at the DoD and Army levels to develop, review, and approve initiatives leading to the adoption of best business practices.
- 74 DoD and 64 Army BIC initiatives had been approved as of September 2003.
- Army Communities of Practice continue to be established throughout the Army. In coordination with the Sergeant Major of the Army (SMA) and several other Army organizations, a set of Communities for Noncommissioned Officers (NCOs) is being launched to enable Soldiers with common interests to find the information resources they need for mission accomplishment, and to support the sharing of lessons learned with others—especially junior personnel.

- In conjunction with DoD's Change Management Center (CMC), Project Exodus, a knowledge-sharing pilot, was launched in an attempt to capture the unwritten knowledge that resides with retiring acquisition leaders and to make this knowledge available to future acquisition professionals.
- AKO has provided more than 1,500 computer-based IT and management training courses free of charge to Army personnel.
- The Signal Military Occupation Specialty (MOS) training program has been shortened. The program, provided via the U.S. Army Signal Center's University of Information Technology (UIT) pilot, employs a combination of classroom instruction and distance learning. Traditional MOS training can entail up to a 13-week residency; under the UIT pilot, 75 percent of students complete residential training in 7 weeks and 25 percent in 8 weeks.

Harness human capital for the knowledge-based organization:

- The Army Knowledge Leaders Program, an enhanced IT intern program for developing IT/KM (Information Technology/Knowledge Management) leaders, has been implemented and placed under Army management.
- Six outstanding scholars entered the 2-year program in September 2003, joining six who started in October 2002.
- The 2003 class represents a highly accomplished group: two are cum laude scholars, three magna cum laude, and one summa cum laude. Two of the six are from ethnic minorities. The group is equally divided between men and women.
- The KM Foundations course has been extended to Army functional communities, including the personnel, logistics, medical, and librarian communities.
- A pilot IT Project Management training program has been established. Training will be expanded in FY 2004 to prepare for new IT Project Manager positions.

### Competitive Sourcing

Many of the tasks performed by government employees can be contracted out to the commercial marketplace, often at savings in the range of 20 to 50 percent. The Army continues to seek savings by outsourcing non-core functions; successful outsourcing will also contribute to the efforts to fully man combat units while preserving the institutional Army.

### Residential Community Initiative

In 1996, the Military Housing Privatization Initiative Act gave the military services the authority to seek private sector capital and expertise to operate, manage, maintain, improve, and build military housing in the United States. As a result, the Army established the Residential Community Initiative



Planned Fort Lewis Town Center RCI rendering.

Figure 5. Residential Communities Initiative: Current Plan



### Current Plan – 27 Projects

#### 72,632 Family Housing Units

>80% of U.S.-Owned Inventory

#### Transferred Operations

Fort Carson, CO - 1999  
Fort Hood, TX - 2001  
Fort Lewis, WA - 2002  
Fort Meade, MD - 2002  
Fort Bragg, NC - 2003

#### 2003 Solicitations

Fort Leonard Wood, MO  
Fort Sam Houston, TX  
Fort Bliss, TX  
Fort Drum, NY  
Fort Monmouth-Picatinny Arsenal, NJ  
Carlisle Barracks, PA

#### Awarded CDMP Development – Transfer Date

Presidio of Monterey-Naval P, CA - Oct 2003  
Fort Campbell, KY - Dec 2003  
Fort Irwin-Moffett Fed AF-Cp Parks, CA - Jan 2004  
Fort Stewart-Hunter AAF, GA - Jan 2004  
Fort Belvoir, VA - Jan 2004  
Fort Eustis-Monroe-Story, VA - Mar 2004  
Fort Hamilton, NY - May 2004  
Fort Polk, LA - Jun 2004  
Walter Reed AMC, DC - Jun 2004  
Fort Detrick, MD - Jun 2004  
Fort Shafter / Schofield Barracks, HI - Nov 2004

#### 2004 Solicitations

Fort Benning, GA  
Fort Rucker, AL  
Fort Gordon, GA  
Fort Knox, KY  
Fort Leavenworth, KS  
Redstone Arsenal, AL

*“GFPR contracting has shown that, under appropriate conditions, the Army can avoid more than 15 percent on environmental remediation costs, and significantly reduce cleanup timelines by up to 45 percent. These two characteristics make GFPR contracts more cost-effective and more protective of human health and the environment.”*

—Major Paul B. Olsen, Executive  
Officer to DACSIM

(RCI) privatization program to address its \$6 billion revitalization requirement. In conjunction with traditionally funded military construction and increased housing allowances, this privatization of family housing under RCI is helping solve the Army’s acute family housing problem.

RCI is dedicated to building high-quality residential communities for Soldiers and their families. The initiative is built on partnerships with private sector developers who have the expertise, innovation, and willingness to work collaboratively with key stakeholders to make RCI a success. The program focuses on residential communities, rather than just houses, and uses a Request for Qualifications (RFQ) acquisition to attract suitable partners from the private sector. The RFQ process reduces time and resource costs for both the Army and the private developer.

Twenty-seven RCI projects are now underway, encompassing more than 72,000 homes and more than 80 percent of the Army’s U.S.-based family housing inventory (see Figure 5).

### **Recruiting**

The Army’s vision for readiness requires that all combat units be fully staffed and that this be achieved without diminishing the Institutional Army. Army recruiters are a key part of the Institutional Army and skilled noncommissioned officers traditionally have filled the recruiter position. Seeking a way to release skilled Soldiers from the Institutional Army, the Army has awarded contracts to two civilian firms to perform the recruiting mission. This is a test program that will

run through FY 2006, at 10 locations. The contractors will replace more than 350 noncommissioned officers, who will be released for other duties.

The contractors will put a premium on hiring veterans who are smart, energetic, and who have a recruiting background. They will be trained in enlistment eligibility, enlistment incentives, and U.S. Army Recruiting Command policies and procedures. The Army National Guard has been using civilian contractors to successfully augment its recruiting efforts since 1999. If this test is successful, it could be expanded to return an even greater number of noncommissioned officers to the force.

### **Guaranteed Fixed-Price Remediation Contracts**

Included as a provision in the FY 2003 National Defense Authorization Act, Guaranteed Fixed-Price Remediation (GFPR) is a performance-based contracting mechanism that obligates the contractor to guarantee the fulfillment of an environmental remediation requirement (including regulatory site closure). Approved by the Army Business Initiative Council (ABIC) in May 2002 and subsequently by the DoD Business Initiative Council (BIC) on September 4, 2002, GFPR is already returning cost and time savings to its users.

The GFPR was implemented in FY 2003 as part of the Army Active Sites Program. GFPR is one contract mechanism in a suite of contract types utilizing performance-based contracting that allows the Army to buy environmental cleanups for a fixed price and at a set schedule. The Army maintains oversight of the

cleanup and initially determines, in consultation with the regulators, the desired performance objective for each site, typically Response Complete or Remedy in Place. These objectives are then described in a Statement of Objectives (SOO) or Performance Work Statement (PWS). The intent is to provide the bidders with sufficient information to allow them to develop cost estimates that are in line with what the Army believes to be reasonable, while keeping the SOOs/PWSs general enough to provide bidders with flexibility in approach. The remediation approach implemented at each site will be affected by the remediation phase existing at the time of contract award as well as other factors, including whether cleanup schedules and milestones are prescribed in a current Federal Facility Agreement, Permit, or Cleanup Decision Document.

The initial investigation of GFPR, which ran from 1999 to 2002, entailed the award by Forces Command (FORSCOM) and Training and Doctrine Command (TRADOC) of nine GFPR contracts, totaling \$80 million. When compared to the estimated cost-based contracts, at least a 14 percent (\$12.5 million) savings has been realized. Besides cost savings, GFPRs also save time. Compared with the original cleanup plans, GFPR timelines tend to be half as long. As the Army progresses with its GFPR contracts it furthermore is streamlining the contracting process and making it even more performance-based. Contracts with Statements of Work averaging 60-100 pages are being set aside for more agile SOOs or PWSs as we become more familiar with performance-

based contracts. The GFPR contracts have proven to be a positive way to protect human health and the environment.

### Improved Financial Performance

During FY 2003, the Army built upon a number of initiatives begun in FY 2002 that are designed to enable better use of funds. The Army is also pursuing other long-term initiatives aimed at putting more useful and more reliable financial information in the hands of managers, with the aim of enabling them to make more efficient use of resources.

### Performance, Planning, and Budget Execution

The initiative to integrate budget and performance has an important purpose: to improve programs by focusing on results. Dollars will go to programs that work; those programs that do not work will be reformed, constrained, or face closure. Ultimately, funding will go primarily to those programs that yield the best results for each dollar spent.

In FY 2002, the DoD adopted a DoD-wide approach to establishing performance outputs and tracking performance results. This approach is based upon the Secretary of Defense's Risk Management Framework, introduced in the DoD's Report of the 2001 Quadrennial Defense Review (QDR). The QDR adapted the balanced scorecard concept to the DoD and provided a management framework to help defense managers balance investment priorities against risk over time. The DoD developed supporting

scorecards for the Budget and Performance Integration initiative. Beginning in February 2003, the Army began receiving grades on its status and progress in:

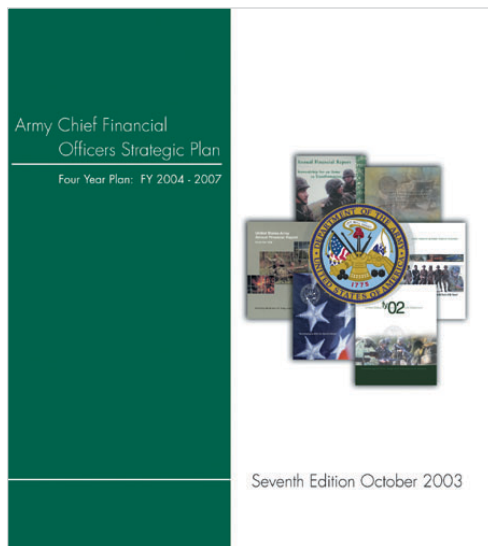
- displaying the linkage of plans, outputs, and resources in budget justification materials;
- expanding the treatment of metrics in the FY 2004 Congressional justification materials; and
- establishing a quarterly system of reporting on progress made toward the performance goals.

For FY 2003, the Army was required to associate performance metrics with at least 20 percent of the resources requested each year (FY 2004-FY 2009). The Army met this requirement and is set to meet the target set for the FY 2005 President's Budget of associating 60 percent of resources requested with the relevant performance metric. This requirement rises to 80 percent with the FY 2006 budget and 100 percent for FY 2007 and beyond. While the 100 percent association target will be a stretch, it is a goal of the Army's financial transformation program.

### Joint Reconciliation Program

During the year of funds execution, the Army must manage and account for all funds appropriated for approved programs. The Joint Reconciliation Program (JRP) assesses how well Army fund holders use their allocated resources to achieve their program objectives. In so doing, it strengthens the financial accounting and management controls and helps to ensure that the financial reports accurately reflect the results of budget execution.





An effective JRP improves budget execution through the identification of invalid obligations, in-course corrections, and the application of harvested funds; eliminates the use of current funds to pay liabilities arising from appropriations that will cancel; and reconciles and recoups delinquent travel advances. The program also eliminates accounting anomalies such as unmatched disbursements and negative unliquidated obligations. It does this in part by leveraging the skills of those responsible for the different aspects of financial management, including accountants, budget and program analysts, contracting professionals, logisticians, and internal review auditors. The JRP applies these collective skills to verify the validity of unliquidated obligations, contractor work in process, billing status, and the continuing need for goods and services not yet delivered.

In FY 2003, the Army Materiel Command achieved \$0 for fifth year canceling accounts. The fourth year canceling account had a beginning balance of \$195 million on October 1, 2002, and was reduced by 70 percent to a balance of \$58 million on September 30, 2003.

### **CFO Strategic Plan**

Army leaders, as they work to comply with myriad financial management mandates, must do so within the context of the Army vision. To successfully achieve this vision, the Army must have sufficient resources with which to take care of its Soldiers,

ensure near-term readiness, and transform itself for the 21st century. The CFO Strategic Plan was developed in recognition of the fact that high-quality financial information is one of the foundations upon which the Army's vision will be built. The CFO plan is an Army-wide management plan designed to synchronize efforts across the Army's functional areas to integrate processes and systems, while improving upon the quality of management information.

The plan involves 15 cross-functional Army organizational elements, as well as the Defense Finance and Accounting Service (DFAS), the OSD (Comptroller), and the DoD Inspector General. Using a five-year planning horizon, the CFO Strategic Plan identifies the steps each organizational element must take to fully integrate all financial and nonfinancial processes and systems that impact Army resources. The Army's ability to produce high-quality financial information for reporting will provide the public with greater confidence that the Army has accountability over its resources. Achieving greater accountability requires that all assets and liabilities, revenues and expenses, and the full costs of programs and activities be consistently, completely, and accurately recorded, monitored, and reported.

The Army will use the latest technology to develop flexible, streamlined procedures and processes that will provide the type of information that will enable sound decision-making. The financial management and functional communities are identifying

unnecessary systems that may be eliminated and those essential systems that must be retained and brought into compliance with all statutory, regulatory, and audit requirements. The DoD Business Management Modernization Program (BMMP) is also working with the Army to identify these systems, to map processes, and to determine an optimal architecture for the future. The CFO Strategic Plan will in this way assist in the coordination and execution of Army efforts in support of BMMP initiatives.

By effectively integrating the financial processes and systems with the many other functional processes and systems that impact on a commander's resources, we can provide our commanders with relevant and reliable information on the availability of funds. With this information, commanders will be better positioned to accurately assess their ability to train and maintain their forces and will be better able to articulate to the chain of command the financial costs and benefits associated with the options available to them.

### Expanded Electronic Government

The President's Management Agenda asserts that, through electronic means, government can both reduce costs and provide better service. The Army accordingly is pursuing two e-Government focused AKM Goals along with a number of other key initiatives aimed at providing better service to its soldiers and civilian employees.

#### **AKM Goals:**

Manage the Army [e-Government] infostructure as an

enterprise to enhance capabilities and efficiencies:

- On May 31, 2003, the Information Technology E-Commerce and Commercial Contracting Center (ITEC4), in conjunction with Army CIO/G-6 and the Program Executive Office Enterprise Information Systems (PEO EIS)/Army Small Computer Program (ASCP), awarded a six-year enterprise license agreement for Microsoft products to Softmart Government Services, Inc. This agreement consolidates the purchase and licensing of all Microsoft Office and server software for all active Army, Army Reserves, and National Guard.
- On September 12, 2003, ITEC4, in conjunction with the PEO EIS/Army Small Computer Program, awarded four commercial item, indefinite delivery, indefinite quantity contracts for Information Technology Enterprise Solutions. This contract has a 3-year base period with two, 2-year option periods to support the Army enterprise infostructure (servers, workstations, storage systems, and network equipment) and related services (site surveys, installation, maintenance, and asset management).
- PEO EIS, in conjunction with the Army CIO/G-6, completed an Army-wide Business Case Analysis (BCA), using a representative sample of Army organizations, to determine the total cost of ownership for providing core information technology services. The recommended alternative supports regional server consolidation, enterprise systems management, Windows 2003

Active Directory implementation, and standardized desktop configurations. This alternative, while costing less, would enhance network security and configuration management.

- Army CIO/G-6 and NETCOM published various documents in September 2003 to provide guidance on server consolidation and Windows 2003 Active Directory implementation. Overseas commands, the Army Medical Command, and the United States Military Academy are actively pursuing server consolidation, coupled with Active Directory migration.
- Army CIO/G-6 has developed a comprehensive list of standard baseline services (telephone, email, visual information, and network security) that the Director of Information Management will provide to all installation tenants once approved and funded by the Army. A Service-Level Management Plan and supporting Concept of Operations is under development to describe the methodology and processes the Army will use to ensure delivery of services.

Institutionalize Army Knowledge Online (AKO) as the enterprise portal to provide universal, secure access for the entire Army:

- AKO accounts across the Army have increased in number from 160,000 (August 2001) to 1.5 million (September 2003). AKO-S accounts increased from 1,600 to 47,600 over the same period. An AKO Configuration Control Board has been chartered by the CIO Executive Board

*“I consider Military Paper Check Conversion to be one of the top e-commerce initiatives to benefit the Army’s Finance Corps since the Vietnam era! It is a true benefit to our civilians, employees, and Soldiers serving in overseas locations.”*

— Juan DeJesus, U.S. ARMY contact for MPCC



to guide the future development of AKO as requirements and technology evolve.

- Numerous self-service features have been added to AKO. These include immunization status, dental readiness, HIV/DNA status, Office Military Personnel File viewing, alerts to Soldiers on college loan repayment deadlines, temporary duty pay status, date of last physical, and promotion boards.
- Additional self-service features planned include women’s health screening, pre- and post deployment surveys, TriCare appointments, prescription refills, discussions, workflow, white boarding, collaboration, and web/e-mail improvements with calendar implementation.
- A Knowledge Collaboration Center also has been established on AKO to enable communities throughout the Army to post and share information pertaining to their mission areas.

#### **Key Army e-Government Initiatives: Eagle Cash**

The Eagle Cash Card, which has been used in Bosnia since 1999, has now been introduced also at Camps Bondsteel, Monteith, and Able Sentry for Soldiers in Kosovo. The DoD and Department of the Treasury have established the cash card to increase the use by U.S. military personnel of local currency, and to discourage the use in theater of the U.S. dollar. The cash card additionally reduces paperwork and the resources that are necessary to process transactions, saving both time and money.

#### **Military Paper Check Conversion**

Started as a test with the U.S. Treasury Department, the Military Paper Check Conversion (MPCC) program has become an essential tool in the Army’s electronic commerce program, enabling the Army and its finance offices to notify customers of returned checks within two days, in contrast to the previous delay of two weeks to three months. In addition, the MPCC process reduces the labor-intensive check processing process.

The system uses a scanner to read the routing information and account number at the bottom of each check. The amount is then transferred electronically from the customer’s account to the finance office. Since March 2003, cashiers in Army finance offices worldwide have been making digital images of checks, handing back to the customer the locally cancelled original as a receipt. The digital check information is routed to the customer’s bank, and the image of the check is stored locally for reference, should questions arise in the future. This conversion of paper check information into a digital format saves time and processing costs while reducing the losses incurred by bad checks.

The MPCC process is being used in Belgium, Germany, the Netherlands, Italy, Bosnia, Macedonia, Kosovo, Kuwait, Qatar, and Korea, and in two DFAS sites in Honduras and Afghanistan. Through May 2003, Army finance offices have processed 241,000 personal checks, valued at \$103 million, with a 99.7 percent success rate for first-time processing. As the

Army progresses with financial transformation the intention is to adopt MPCC as the Army standard at home as well as abroad.

### U.S. Purchase Card Program

Since its initial implementation in calendar year 1998, the U.S. Purchase Card Program has allowed the Army and other DoD agencies to procure goods and services using the purchasing card rather than being invoiced for purchases. The program requires that general purchases at or below \$2,500 and training expenses up to \$25,000 be purchased using the card, thus eliminating the need for DFAS to process invoice payments. This has eliminated on an annual basis more than 4.6 million commercial invoice payments. At the heart of the program is the Customer Automation and Reporting Environment (CARE). CARE essentially eliminates the administrative tasks of the program, instead automating them in a secure Internet environment.

The program returns savings in three forms: internal, purchase rebates, and a decrease in payment costs. Internally, the program reduces the costs associated with the administrative efforts of the agency program coordinators, billing officials, and cardholders. The program allows users to register and helps them maintain their accounts through the automation of

tasks such as password registration, the reporting of queries, and account review. From the rebate perspective, the program reduces the average number of days required for payment. On average, payments made on purchase card accounts are required within 31 days; under the CARE program this time falls to an average of 8 days. This decrease in days to pay thus increases the amount of rebates the Army receives as a result of prompt payment: actual rebates have risen from 0.5 percent to 1 percent of sales, resulting in a projected annual Army-wide rebate in excess of \$17.6 million. The savings continue with the decrease in payment costs, or the cost that the Army incurs in making billing payments. With the automation of the CARE program, the bill from DFAS will fall from its current \$18 per line of accounting to only \$6 per line of accounting—a 67 percent reduction in accounting costs.

### Budget and Performance Integration

Improvements in the management of human capital, competitive sourcing, improved financial performance, and expanded electronic government will matter little if these advances are not linked to better results. Clearly, scarce federal resources should be allocated to those programs and managers that deliver results.



### Metrics for FY 2003

FY 2003 Army Purchase Card Usage			
Agency	Fiscal Year thru 30 Aug 03		Thru 3rd QTR - Jun 03
	Sales	Transactions	Rebates
Army	\$2,405,840,285	4,147,823	\$4,757,294